

CITY OF CHENEY
Spokane County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The City Should Strengthen Controls And Procedures Over Employee Benefits

The internal control procedures over the city's employee benefits programs need improvement. We noted the following conditions during our audit:

- a. The city does not have the benefits package identified or approved in the personnel policy and procedures manual.
- b. The city does not maintain subsidiary records to support the changes to the Deferred Compensation Fund for individual employee contributions.

RCW 43.09.2 states in part:

The accounts shall show the . . . documents kept or required to be kept necessary to isolate and prove the validity of every transaction . . .

Volume 1, Part 3, Chapter 1, pages 15 and 17-18 of the *Budgeting, Accounting and Reporting System* (BARS) manual requires the following for entity internal control systems:

An internal control system consists of the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

Internal control weaknesses, such as described, and the lack of accounting policies and procedures do not provide adequate protection of public assets. Weak internal controls increase the potential for accounting errors and the occurrence of fraud without timely detection by management.

We recommend that the city should strengthen controls and procedures over employee benefits.

Auditee's Response

The City has established procedures for identifying benefits in the personnel policy and procedures manual. Subsidiary records for deferred compensation funds will be completed by the first quarter of 1997.

2. The City Should Improve Security Access Controls Over Its Computer Systems

The following weaknesses in the city's security over access to the computer system reported in the prior audit existed at audit date:

- a. The city does not have a formal authorization procedure for establishing new users on the system.
- b. Some users are not restricted to their program within the system. They have the capability to change initial settings which define whether the user can change the program, initial menu or current library.
- c. All users can leave their terminals indefinitely and the system stays active, thus allowing unauthorized access during their absence.
- d. All users can be signed onto more than one terminal.
- e. The city does not have a method for terminating all users leaving city employment.

The State Auditor's Office, *General Controls and Application Controls for Computer Systems*, Bulletin 3, states:

Access to program documentation should be limited to those persons requiring it in the performance of their duties. Program documentation contains information necessary to make changes to programs, data file structures, programmed control criteria, and other elements of applications. As such, it should be subjected to restricted access.

Access to data files and programs should be limited to those authorized to process or maintain particular systems. This control could be implemented through a "library" function applied to both data and program files. The library function can be carried out through the use of library personnel as well as librarian software systems.

The *Electronic Data Processing Auditor's Foundations, Control Objectives*, Section 3.4.1, states:

Access to the computing resources of the Systems Services Department should be limited to those individuals with a documented and authorized need for such access. Layers of logical and physical access controls should be provided to protect the department's computing resources against unauthorized use or modification, damage, or loss.

Access controls are designed to limit access to documentation, files, and programs. A weakness in or lack of such controls increases the opportunity for unauthorized modifications to files and programs, as well as misuse of the computer hardware. Weaknesses in systems software, program, and data security significantly decrease the integrity of the system. Proper access controls will assist in the prevention or detection of deliberate or accidental errors caused by improper use or manipulation of data files, unauthorized or incorrect use of computer programs, and/or improper use of computer resources.

Management is currently in the process of establishing proper security control policies and procedures. The new policies and procedures were not implemented until after the end of our fieldwork and, therefore, were not reviewed during our audit.

We recommend that management establish and implement controls and procedures which would provide adequate security access for the city's computer operation.

Auditee's Response

Security access controls for authorization, approval and updating was completed by the City in November 1996.

3. The City Should Complete A Disaster Recovery Plan

The city does not have a disaster recovery plan for its computer operation system. Application and operating system software, as well as programs and other documentation, are not stored at an off-site facility. Nor are supplies of warrants and other critical nonstandard forms stored off-site.

The *Electronic Data Processing Auditor's Foundations*, Control Objectives, Section 3.5.1, states:

Adequate plans should exist for the back up of critical computer resources and for the recovery of information services following unanticipated interruptions of them.

A written plan for processing critical application programs in the event of a major hardware or software failure, or temporary or permanent destruction of facilities, should be maintained.

The city's management was informed of this in prior audits, and is progressing in the development of a disaster recovery plan. The lack of an adequate backup and recovery plan increases the risk of losing data, programs, and documentation in the event of a disaster. Examples of lost information would be financial records such as receipts, fixed assets, payables, grants, and operational records. The absence of a disaster plan will also delay the reestablishment of support for critical operations.

We recommend that the city complete a disaster recovery plan for its computer operation. This plan should provide for the processing of critical application programs in the event of a major hardware or software failure.

Auditee's Response

The City has established policy for a Disaster Recovery Plan and will have procedures in place the first quarter of 1997.

4. The City Should Strengthen Controls And Procedures Over The Voucher System

Our examination of the city's voucher system, which controls all city expenditures except for the payroll, disclosed deficiencies in both internal controls and accounting procedures. The following weaknesses were noted in the prior audit and found to still exist:

- a. Vouchers were paid based on photocopies of invoices. We found this to exist in 33 percent of the vouchers tested in the current audit.
- b. The auditing officer's certification signature was rubber stamped on the voucher by the accounts payable clerk. The auditing officer did not review most vouchers. These procedures have not changed. In addition, blank voucher forms are prestamped with the auditing officer's certification signature.
- c. Supporting documentation was missing from several of the vouchers tested.
- d. The city did not pay all expenditures by the warrant approval process. We found several instances in the current audit where the city paid an invoice improperly through the treasurer's checking account.

We found this additional weakness to exist in the current audit:

- City policy and procedures require purchase orders for purchases exceeding a stated dollar amount. These amounts are different for each type of fund. We noted that purchase orders were not used consistently where required by policy.

RCW 43.09.200 states in part:

The accounts shall show the . . . documents kept or required to be kept, necessary to isolate and prove the validity of every transaction

Internal control weaknesses, such as described, do not provide adequate protection of public assets. Weak internal controls increase the potential for accounting errors and the occurrence of fraud without timely detection by management. The city's decentralized voucher system contributed to the weaknesses noted.

We recommend that management continue to establish and implement internal controls and accounting procedures to strengthen their voucher system.

Auditee's Response

Policies and procedures for contracts have been reviewed and updated. The task of inventory for all contracts will be completed the first quarter of 1997.

5. The City Should Properly Use Contracts For Services

During our prior examination, the city was not able to provide us with 8 of the 15 contracts we requested. In the current audit, we found that, of those 8, the city had not yet obtained contracts in 4 instances. We found the city did not have contracts for use of legal services, engineering services, and a lease agreement for building rental.

We requested 11 additional contracts during the current examination. The city was unable to provide us with 6 of these contracts. We found the city did not have contracts for use of other governmental agencies' services, computer equipment leasing and support, garbage collection, and copier leases.

RCW 39.34.030 states in part:

Appropriate action by ordinance, resolution or otherwise pursuant to law of the governing bodies of the participating public agencies shall be necessary before any such agreement may enter into force.

RCW 39.34.080 states in part:

. . . each public agency entering into the contract is authorized by law to perform: PROVIDED, that such contract shall be authorized by the governing body of each party to the contract. Such contract shall set forth fully the purposes, powers, rights, objectives, and responsibilities of the contracting parties.

The city has not established centralized control over issuance and execution of contracts and/or agreements, or leases. In response to our prior finding, the city has established procedures for monitoring of existing agreements. The city management and administration were not aware of all legal contracts and/or agreements by which the city is legally obligated. The city plans to establish a policy to assure contracts are properly used when acquiring services.

We recommend city management and administration continue to establish and implement procedures which will assure the proper use of contracts for acquiring services.

Auditee's Response

Policies and procedures for contracts have been reviewed and updated. The task of inventory for all contracts will be completed the first quarter of 1997.

6. City Officials Should File Financial Statements On A Timely Basis

City officials were late in preparing their financial statements for 1995. Complete financial statements were filed with the State Auditor's Office in October 1996.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor.

Such reports shall be prepared, certified, and filed with the division within one hundred fifty days after the close of each fiscal year.

Officials stated that the report was filed late because of the extra resources required to complete conversion to a new financial system.

Late annual financial statements result in decreased accountability to city officials, the public, and other interested parties.

We recommend that city officials develop procedures to ensure that annual reports are filed in a timely manner.

Auditee's Response

We anticipate, with the computerizing of the preparation of the Financial Statements, that the reports will be submitted in a timely manner.

Auditor's Concluding Remarks

We appreciate the city's response to our audit findings. We will review these areas in our next audit.